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25 July 1966

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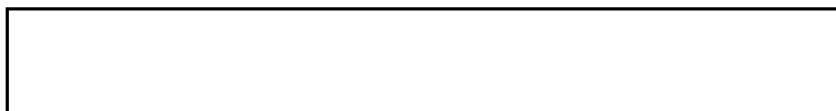
PANAMA

Summary

Violent student disorders in Panama City and Colon last month again pointed up basic socioeconomic weaknesses which undermine stability.

President Robles' shaky coalition government of oligarchical parties has been unable to cope with Panama's serious problems and there is evidence that his position may be weakening. Arnulfo Arias-- leader of Panama's largest political party--continues to be President Robles' most immediate threat. He is in a position to take advantage of the government's increasing inability to cope with the country's problems and to exploit popular discontent. The outcome of the canal negotiations could determine his course of action.

While Panama's economy has grown rapidly in recent years, the disparity in living standards, widespread unemployment, and growing poverty--particularly in the urban areas--make the outlook for political stability increasingly bleak. Thus, there seems



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to be a need for a new long-range political as well as economic approach to Panama; basic reforms in the electoral, parliamentary, and legal structure seem indicated as are quick impact economic approaches such as the Mekong-Delta concept.

Panama's 4,200-man National Guard was able to control last month's riots, but fear of further urban violence has prompted the Panamanian Government to request and receive additional US assistance in augmenting the size of the guard by 500.

After almost a year and a half of negotiations, the canal talks appear to be deadlocked and President Robles, whose term expires in October 1968, may have abandoned hopes for a new treaty.

To build a road through the Darien Gap connecting Panama and Colombia would require an estimated \$150-270 million and would require approximately 1,000-1,500 persons for five years or so.

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GENERAL SITUATION

The violent student demonstrations in Panama's two major urban centers last month have again pointed up the basic weakness in the country's structure and the alarming speed with which minor incidents can grow into crises of major proportions.

The disorders were the worst since the anti-US riots of January 1964, and drove home to the Robles government the urgent need for action to alleviate the causes of growing unrest in Panama City and Colon-- overcrowded and poor housing, rising unemployment, and a high cost of living.

Robles and his aides, with a recent \$3-million loan from the US, are planning several urban development programs which will alleviate some of the worst pressures in the cities. It is doubtful, however, that enough can be done in time to stem the growing discontent of much of the population. Subversives and self-seekers of all political coloration are in a position to exploit the situation and are constantly seeking the opportunity to do so.

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President Robles, though well intentioned, has accomplished only a few of the extensive social and economic reforms he promised during his campaign. The entrenched oligarchy that has dominated the political and economic life of the country since independence strongly resists any reforms which impinge on its economic interests.

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Indeed, it has been the oligarchy's adroitness in diverting popular resentments from itself and against the US presence in the Canal Zone that has helped keep it in power.

Because he heads a shaky coalition government of oligarchical parties, Robles must constantly perform a balancing act to allocate very scarce resources. There is increasing evidence that his political position is weakening. Some of his supporters have already pulled away, and more will undoubtedly do so as the end of his term approaches.

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Robles is further hampered by the fact that three cabinet members and several top aides are already presidential aspirants for the 1968 elections.

Opposition leader Arnulfo Arias continues to be the most immediate threat to the Robles government. Charging that the present regime is "illegitimate," Arias misses no chance to condemn the government's inability to resolve basic problems. He is joined by a host of other dissidents--including Communists, ultranationalists, and Christian Democrats--whose short-term interests coincide with his own.

Through demagogic appeal Arias continues to exploit successfully a popular feeling that Robles' failure to alleviate misery is an intentional plot inspired by the oligarchy to keep the country's wealth in the hands of a few. Charging a sellout to the US, Arias has also served notice that he will oppose any Canal settlement that the "illegitimate" Robles government might negotiate.

Given the widespread discontent, especially in the urban areas, Arias and his followers could probably trigger serious disorders at any time and eventually

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wear the government down through mob action. Arias, apparently feels, however, that time is on his side. He will probably continue to exploit popular pressures and await the proper psychological moment. This could come if a Canal settlement were announced during the presidential elections set for May 1968.

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THE PANAMANIAN ECONOMY

Current Situation

Panama's economy has grown rapidly since 1960 with the Gross National Product (GNP) rising at rates of up to ten percent a year.

Although annual per capita income in Panama is one of the highest in Latin America (nearly \$500), there are wide disparities in living standards.

The majority of the country's 1.2 million people live in poverty; high unemployment combined with a high political agitation potential has often been fanned to violence in the past.

The combined population of Panama City and Colon comprises almost one third of the total population. Between 20 and 30 percent of their labor force is unemployed. Unemployment rates in these two cities are over twice the national average of 12 percent and have been rising. Upwards of one fourth of the inhabitants of these two major urban centers live in overcrowded and squalid slums--some of which border the Canal Zone and provide a sharp contrast in living standards.

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Approximately 90 percent of Panama's industrial and commercial enterprises are concentrated in the key terminal cities. This factor, coupled with the proximity to the Canal Zone and the near-subsistence level of most agriculture, produces a constant stream of migrants into the cities. Moreover, capital intensive investment has not provided adequate employment opportunities for the increasing numbers of unskilled young people that reach working age each year.

The economy has been characterized by a growing imbalance in commodity trade which makes Panama more dependent on foreign assistance to offset its deficits, by a decline in foreign exchange reserves, and by a tendency to rely on the Canal Zone as the principal source of income.

An annual population increase of three percent and high unemployment and underemployment rates are reflected in the housing situation. It is estimated that two thirds of all Panamanians are inadequately housed. Government efforts to alleviate this problem have been inadequate.

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In the rural areas, where 47 percent of the total national labor force is employed, underemployment is extensive. Poor communications and transportation facilities, unequal land distribution, insecurity of tenure, and soil-robbing, slash-and-burn cultivation hold much of the rural population in a vicious circle of almost subsistence agriculture.

### Prospects

Immediate economic prospects are good by Latin American standards. Political stability, however, is constantly threatened by rising unemployment and the inability of the government to generate enough investment to provide employment or to mount a welfare program large enough to permit a minimum level of decency for the urban masses. The principal constraint on the government is its inability to overcome the persistent opposition of the country's small but powerful oligarchy to effective fiscal reforms.

The prospect of US construction of a sea-level canal increases the need for longer run government planning and reform. The lack of a firm.

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political base, the ~~in any~~ weaknesses of the present government coalition, and the demonstrated record on the part of the oligarchy to protect its special interests point up the need for a new long-range political approach responsive to popular aspirations in Panama.

Panama's economic imbalance is aggravated by its dependence on the present canal economy. The prospect of the conversion of the canal into a sea-level crossing will result in reduced revenue for Panama, increasing the need for Panama to diversify its economy and sources of revenue. The present canal generates about two fifths of Panama's GNP and two thirds of its foreign exchange. The 1964 trade deficit of \$108 million, for example, was financed largely by dollar flows from the Canal Zone.

A sea-level canal would require only a small number of employees, thus eliminating much of this income unless the Panamanian share of canal tolls was enormously increased. Serious dislocations in the economy would be caused by the sharp decline in total employment that would follow the

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completion of a new canal in Panama and the closing of the present canal.

In speaking of a new approach to Panama's problems, one might for example consider a joint developmental corporation--devoid to the extent possible of political influence--which would address itself to a greater utilization of Panamanian manpower and to the development of certain industries and resources such as the processing of unfinished products passing through the canal.

Whether it is wise to be tied to the Robles Government for better or for worse is questionable (Robles' term expires in 1968 and he cannot succeed himself). Thus one could consider an ultimate method of aiding Panama quite separate from the US AID channel. (The Mekong-Delta concept seems worth considering.)

While the Panamanian economic needs are paramount obstacles, their fulfillment, of course, cannot proceed without development of a sound political base divorced from the powerful influence of the oligarchy. It is essential to carry out basic

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reforms in the electoral, parliamentary, and administrative fields as well as to establish a competent Civil Service and legal structure.

There are at present strong popular pressures within Panama for national sovereignty which are being capitalized on by such opposition politicians as Arnulfo Arias. Critical to any long-range transformation of the Panama political/economic base is a translation of this current popular pressure into constructive basic reforms which can lead to the necessary stability.

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THE DARIEN GAP AND THE PAN-AMERICAN HIGHWAY IN PANAMA

The only remaining gap prohibiting through traffic by road from the United States to the road network of South America is between Panama and Colombia. Designated as the Darien Gap, this stretch consists of 180 miles of roadless area in Panama and 100 to 300 miles in Colombia.

Nature of the Area

There is virtually no economic development throughout the entire Panamanian part of the region; slash-and-burn agriculture is practiced by the sparse and scattered Indian population. Only a few tiny villages are to be found.

A densely wooded rainforest covers most of the area and would constitute the most formidable engineering obstacle. Annual rainfall amounts throughout Darien are high, generally 100 inches on the Caribbean slopes and from 60 to 80 inches on the Pacific side. The dry season lasts from January to May, but there is no true dry season during the remainder of the year. Temperatures are high throughout the year.

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The terrain of eastern Panama presents no unconquerable obstacles to road construction and in places is favorable. The mountain ranges all trend in a generally NW to SE direction, and a broad valley system through the central part offers relatively easy passage. The only swamps are found along the lower reaches of the larger rivers near the coastline.

#### Development of a Route

The problem of locating a route for the Pan American Highway in this tropical area has been studied for years, having been masterminded in the last decade by the Darien Subcommittee of the Pan American Highway Congress. In 1960, after five years of technical studies by Panamanian, Colombian, and United States engineers, an official route across the international border area was selected (see map).

In 1963, contracts were let to Brown and Root Overseas, Inc., to conduct with Panamanian and Colombian firms joint studies on reconnaissance surveys, designs of construction plans, and cost estimates for the route south of El Real in Panama. Financing of the surveying was managed through the Organization

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of American States--one third of the cost to be borne by the Latin American countries and two thirds by the United States. A total of \$3 million was estimated, but to date only \$2.75 million have been contributed.

The surveys, which included both air and ground reconnaissance, are now essentially completed. Results of the surveys have provided the data essential for the further planning of the actual construction of the route. In the course of the surveying work, an alternate and shorter route has been located across the Atrato swamps in Colombia (see map) which would reduce considerably the length of the route in that country. No changes were found in the route proposed in Panama. Total cost estimates vary between \$270 million for the route in Panama and along the Pacific slopes in Colombia, and \$150 million for the shorter route through Panama and across the Colombian Atrato swamps. Guesstimates by the Bureau of Public Roads regarding the manpower required to construct the road are from 1,000 to 1,500 persons for some five years, including supervisory personnel who would probably be "imported."

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Decisions will now have to be made regarding the final route and the means of financing the venture.

Impact of a Through-Route

The opening up of a route that would connect the South and North American continents has tremendous emotional appeal to the Latin American countries, which probably colors their assessment of the immediate economic benefits to be derived. However, there are areas of economic potential on both sides of the border, including land suitable for banana and coconut plantations as well as extensive stands of exotic timbers. International commerce could be expected to increase for the surface transport of marketable products, and the tourist industry would undoubtedly expand to a considerable extent. Detailed feasibility studies will be required to determine with any accuracy what possibilities exist in this region that has thus far been on the isolated fringes of the two countries concerned. (Map)

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